

O 041316Z OCT 05
FM AMEMBASSY NICOSIA
TO SECSTATE WASHDC IMMEDIATE 4897
INFO AMEMBASSY ANKARA PRIORITY
AMEMBASSY ATHENS PRIORITY
AMEMBASSY LONDON PRIORITY
USMISSION USUN NEW YORK PRIORITY
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CONFIDENTIAL NICOSIA 001617

SIPDIS

E.O. 12958: DECL: 09/22/2020

TAGS: [PREL](#) [PGOV](#) [CY](#)

SUBJECT: "AND FOR MY NEXT TRICK...": REVISITING THE CYPRUS
ISSUE AFTER OCTOBER 3

Classified By: CDA Jane Zimmerman; Reason 1.4 (b) and (d)

11. (C) Summary: Although the end result of the EU's October 3 decision on Turkey was positive, the tortuous negotiations on the framework and the "counter declaration" highlight the implications that the unresolved Cyprus dispute has for U.S. interests across a wide range of issues. While the prospects for a new round of Cyprus talks appear dim, we should take concerted steps now both to enhance the prospects of success for any future negotiations and to ensure minimum spillover into other issue areas. Our immediate goals should include: building bridges between the two communities; reinforcing Turkish Cypriot support for reunification; and promoting a more constructive Greek Cypriot position on the settlement package. In the absence of negotiations on a comprehensive settlement, we may want to try to broker some accommodation on the parallel issues of boycotts and embargoes that will advance U.S. interests in nonproliferation and enhanced NATO-EU cooperation. Meanwhile, we should work to deepen our dialogue with Nicosia on issues that go beyond the Cyprus problem where we have shared interests. These include counterterrorism, nonproliferation and UN reform. End Summary.

A Fresh Look

12. (C) Now that the contentious October 3 EU decision to begin accession negotiations with Turkey is behind us, it is worth taking another look at the fundamentals of the Cyprus issue and considering afresh what steps the United States, the EU, the UN, and other key actors can take to both advance the prospects for an eventual settlement and minimize the negative consequences of the current impasse. Although the end result of the October 3 decision was a success, the tortuous negotiations on the framework and the "counter declaration" regarding Ankara's obligations towards the ROC made clear that the Cyprus problem will continue to spill over into other issue areas and complicate key aspects of our regional agenda. That the Cyprus dispute remains a serious drag on Turkey's EU aspirations is obvious. Cyprus has already signaled its intention to turn Turkey's ratification of the customs union protocol into another mini-crisis for the EU if Ankara insists on including its own July declaration in the package the government will forward to the Grand National Assembly for approval. Equally, the feud between Turkey and Cyprus undermines our efforts to find a modus vivendi for EU-NATO cooperation, restricts the progress of rapprochement between Greece and Turkey, and undercuts cooperation between the EU and key nonproliferation mechanisms such as MTCR and the Wassenaar Arrangement. If the Cyprus problem cannot be "solved," we will need to find a way to manage it more effectively.

Quo Vadis: Prospects for New Talks

13. (C) Although President Papadopoulos and other senior GOC officials regularly claim that UN SYG Annan is on the verge

of launching an initiative on Cyprus, the prospects for a new round of talks are -- at best -- dim. Following the last round of UN "pulse-taking" in June, then U/S Kieran Prendergast reported to the Security Council that the gap between the positions of the two sides was wide and growing and the level of mutual confidence low and falling. Moreover, he described the proposed Greek Cypriot list of changes to the Annan Plan as "daunting." Prendergast himself told us that he put considerable thought into his choice of adjectives. It is a characteristic understatement. Papadopoulos continues to believe that Greek Cypriot interests are best served by shifting the locus of action from the UN to the EU and using Turkey's own European ambitions to leverage unilateral concessions out of Ankara. Nicosia's experiences last December and in the run-up to October 3 have exposed the shortcomings of this approach, but Papadopoulos has not lost faith in the longer-run efficacy of EU leverage.

¶4. (C) If Papadopoulos is in no hurry for a quick fix to the Cyprus problem, neither is Ankara. The GOT has been spending down the credits it accumulated with its support for the Annan Plan in April 2004 and does not yet seem to understand that Turkey's "yes" is a depreciating asset. Among the principal actors, the only party eager for a resumption of talks is the Turkish Cypriot side. Turkish Cypriot leader Mehmet Ali Talat makes no secret of his frustration and impatience. He won power on a pro-solution, pro-settlement platform but cannot deliver without Greek Cypriot cooperation. This also explains Talat's single-minded focus on easing Turkish Cypriot isolation. Steps in this direction

would not only constitute a political victory for pro-solution forces in the north, they would also -- in Talat's view -- put pressure on the Greek Cypriot side to adopt a more constructive and flexible approach. It is unlikely, however, that Talat will get the chance to test this hypothesis. We have already put in play most of what we have to offer and the Europeans are constrained in their ability to reach out to the Turkish Cypriots by Nicosia's membership in the club. The EU's inability to agree on a package of trade and aid measures for the Turkish Cypriots, for example, reflects GOC resistance to any "upgrading" of the Turkish Cypriot administration or any kind of direct relationship between the EU and Turkish Cypriot "officials."

¶5. (C) Under these circumstances, Annan is understandably reluctant to reengage on the Cyprus issue and we should not push him to do so. There are, however, things we can do to ensure that when and if a new round of Cyprus talks do begin they have a realistic chance to succeed. Our goals should include:

- Building bridges between the two communities;
- Reinforcing Turkish Cypriot support for reunification; and,
- Promoting a more constructive Greek Cypriot position.

¶6. (C) We are already hard at work on all three objectives. Our traditional bicomunal programs support the first goal, as do our newer efforts aimed at matchmaking between Greek Cypriot and Turkish Cypriot businesses. We have also had some success in promoting the opening of more crossing points, encouraging progress in the Committee on Missing Persons, de-mining, and pressing the Turkish Cypriot side to allow Orthodox religious services in the north and to allow access by preservation experts to medieval monuments in the Nicosia Buffer Zone. With respect to support for pro-solution Turkish Cypriots, the \$30.5 million Cyprus Partnership for Economic Growth (CyPEG) has been successfully launched with three long-term contracts in place. These three contracts are focused on enterprise development and banking; water and energy use efficiency; and environmental protection. Unfortunately, Greek Cypriots are inclined to look at both CyPEG and our bicomunal programs as threatening or even as "punishment" for their opposition to the Annan Plan. It is, therefore, important for the Department to seek relief from the implications of the Nethercutt Amendment in

Appropriations Acts for FY 2006 and future years so that USG bicommunal programs do not have to exclude activities that benefit the Government of Cyprus.

¶17. (C) The third goal, pressing the Greek Cypriot side to adopt a more constructive position, is both the most important and the most difficult. We cannot be too aggressive in pursuing this goal as just the hint of American pressure is enough to rally even Papadopoulos' most committed opponents to his banner. Our best hope here is that a prolonged period of UN inaction will strain the President's relationship with AKEL, his instinctively pro-solution partner in government. Parliamentary elections scheduled for May 2006 will be a critical bellwether of the price AKEL will pay for supporting Papadopoulos. While Anglo-American pressure is relatively easy for Papadopoulos to discount and shrug-off, pressure from fellow Hellenes is harder to ignore. A combination of pressure from the inside (AKEL) and the outside (Athens) will be necessary if Papadopoulos is to be convinced to adopt a more conciliatory approach to the UN and his Turkish Cypriot compatriots.

Quo Vadis Redux: What Do We Do Without Talks?

¶18. (C) As a new round of Cyprus talks appears unlikely at any point in the foreseeable future, we need to develop a coherent strategy for managing the spillover effects of this exasperating problem. Although the parenthetical language added at Cypriot insistence to paragraph 7 of the negotiating framework nearly derailed the entire process, it is in our interest that Ankara stop blackballing Cyprus in all international organizations as a matter of principle. This would effectively "de-fang" one of the most potent arguments the Greek Cypriots have in pressing for the EU to adopt a hard-line approach with Ankara. Moreover, bringing Cyprus into groups such as the MTCR or the Black Sea Economic Cooperation forum on merit would be good for the work of the groups in question and eliminate a potentially serious point of friction between key international organizations and the European Union. Turkey's adopting a more flexible approach to engaging the ROC internationally might also open up possibilities on the EU-NATO front where Ankara's insistence on a strict reading of Berlin-Plus requirements are

handicapping efforts to promote cooperation. Even though Turkey is now obligated "to progressively align" its policies on membership in international organizations with those of the EU, it is unlikely that Ankara will ease up on Cyprus without some kind of quid for the Turkish Cypriots. We could look at ways the Greek Cypriot side might loosen certain of the restrictions in place on -- for example -- Turkish Cypriot participation in international sporting events in exchange for Ankara's acquiescence to Nicosia's joining the MTCR. This is obviously not easy and the odds of success are not high, but the potential payoff is significant and it is worth taking a serious look at the possibilities.

Meanwhile...

¶19. (C) We must not lose sight of the fact that Cyprus is a country, not a problem. As a member state of the European Union, it is now part of the vaunted transatlantic relationship and we should look for opportunities both to broaden and deepen our cooperation with Nicosia on issues that have little or nothing to do with the island's division. Our cooperation on counterterrorism and nonproliferation has generally been excellent. Cyprus was the first EU state to sign a PSI shipboarding agreement with United States. We cooperate well and closely on anti-money laundering efforts and terrorist financing. We should work to build on these areas of cooperation and keep our differences over the Cyprus issue separate and apart. One area where we should put pressure on the government is the GOC's unwillingness to crack down on the activities of Kongra Gel/KGK on Cyprus. The island is both a base for fundraising operations and a key transit point for KGK fighters. The Greek Cypriots are

ambivalent about the KGK, and there is a certain "enemy of my enemy" mentality that reinforces the authorities natural tendencies to passivity. Getting the GOC to do more about Kongra Gel will be a high priority for the Embassy's Counterterrorism Working Group.

¶10. (C) We are also working with the GOC to support U.S. policy on UN reform. This is an area in which FM Iacovou is knowledgeable, interested, and generally right-thinking. We intend to raise the profile of this issue in our dialogue with the GOC not because Nicosia is particularly influential in the UN system but because it is an area of considerable commonality of view. In trying to get beyond the Cyprus problem, we will need to emphasize points of agreement and minimize areas of intractable disagreement. Hopefully, we can leverage cooperation on UN reform into broader cooperation on a range of regional and global concerns. Nicosia's decision to launch a new aid program -- capitalized at \$5-6 million a year -- will also generate new opportunities to work with the GOC in coordinating our response to humanitarian crises, particularly in Africa.

¶11. (C) Cyprus' role in the Middle East remains largely one of potential, but we will continue to look for ways to engage the GOC constructively in the BMENA initiative. The Cypriots do have good contacts with the Palestinian leadership and GOC officials are frequent visitors to Damascus, Beirut and Tehran. At a minimum, more regular consultation with the GOC on developments in the Middle East should encourage Nicosia to take a more active role in regional affairs. Cyprus likes to bill itself as a bridge between Europe and the Middle East and a logical home for multinationals looking to invest in the region. While it is not at all clear that the corporate world feels the need for a bridgehead, we should seek to capitalize on Nicosia's own self-image to promote BMENA objectives.

Comment

¶12. (C) It is easy to despair when considering the prospects for a Cyprus settlement. The Cyprus problem here is like the weather. Everybody talks about it, but nobody does anything about it. Moreover, time is the enemy of a solution. Without a settlement, the vectors in the relevant variables are almost all negative, including: demographic and political trends, the pace of development of disputed properties, growing cynicism and indifference in the south, and impatience and frustration in the north. To the extent possible, therefore, we want to liberate U.S. policy towards Cyprus from the anchor of the Cyprus problem itself. Cyprus is no longer (and truthfully never really was) a single-issue country. EU accession has only confirmed and accelerated this trend. While this development does little to help us solve the Cyprus problem, it does create considerable incentive for us to get beyond the problem and advance our shared goals in the many areas where we can cooperate meaningfully with Nicosia.

ZIMMERMAN